CEA Compensation Policies and Procedures

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CalPERS

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Purpose and Rationale

Compensation policies for Career Executive Assignment positions (CEA) for employees of the California Public Employees' Retirement System (CalPERS) are contained in this document. CEAs are used to staff most Executive and Senior Manager positions (Division Chiefs and above) and are separate and distinct from Board Reportable and Investment Management positions whose salaries are set by the CalPERS Board of Administration (Board). CEAs are at-will appointments and subject to the laws and rules that apply to such appointments (SPB 599.990-995).

Acknowledging CEAs are part of a larger civil service compensation plan, CalPERS sets compensation levels within a structure authorized and periodically modified by the Department of Personnel Administration (DPA). The compensation program consists of two parts; base pay and performance based incentive pay.

Base pay is determined in accordance with the civil service pay structure as established by DPA. CEA incentive pay is based upon achievement of specific individual CEA objectives developed in conjunction with CalPERS annual business planning process and demonstrated managerial and leadership competencies.

The CEA compensation program reinforces the strategic decision that pay must be high enough to compete in the State civil service market place to recruit and retain competent, highly qualified senior managers and executives.

Compensation systems must be carefully structured to recognize both labor market forces, and reinforce maximum performance by placing a portion of total compensation at risk. This pay-at-risk approach places a premium on demonstrating key leadership competencies and achieving objectives that are directly connected to the CalPERS strategic and business plans. The recruitment and retention of highly skilled Career Executives serves as the foundation for the organization's overall success.

Authority Authority for setting base salary ranges for CEA positions resides solely with DPA. Ranges are predetermined by DPA and appointment and movement within established ranges is governed by CEA salary rules (DPA 599.985-988)
The CalPERS CEA incentive compensation program was approved by the CalPERS Board in 1998 and authorized by DPA in Pay Differential 24 (Appendix 1).

Through delegation from the Board to the CEO, the program is administered by the Human Resources Division in accordance with the policies contained herein. The Board and the CEO reserve the right to amend or rescind any provisions of the incentive compensation policy pursuant to any required approval of such changes by DPA.

Compensation Administration - *Base Pay Policies*

General Base Pay Considerations As authorized by DPA Rule 599.985, a monthly salary rate is assigned to a CEA position which is a flat rate based on the position's value to the organization and established criteria. CEA pay rates fall within five levels or ranges as determined by DPA. Pay rates may not exceed the maximum of the approved level and range for each position. (Appendix 2)

CEA level determines the pay range for a specific position; DPA retains authority for approving all CEA levels and pay ranges. Levels for all CEA positions are determined when a position is first allocated and approved as a CEA by the State Personnel Board (SPB). In addition to SPB and DPA position allocation criteria, CalPERS applies internal CEA position criteria specific to the organization when requesting approval of a particular level and pay range (Appendix 3).

Salary upon Appointment to CEA Position When first appointed to a CEA position, a flat rate salary is determined based on the level of the position. Typically, new appointees may receive the minimum of the established CEA salary range for the predetermined level, or five percent whichever is greater (Appendix 4). A salary determination worksheet is prepared by HR and requires approval of the hiring executive and the CEO at the time of hire (Appendix 5).

Annual Base Salary Increase

After the initial appointment and the first 12 months of service in the position, a CEA may, at CalPERS discretion, be granted a five percent salary increase up to the maximum of the range for the allocated CEA level. The annual salary movement for a CEA shall not exceed five percent in a fiscal year. Any exception to exceed the five percent salary movement within a fiscal year or movement into the restricted salary zone reserved for attorneys, engineers and physicians must be approved by DPA (reference Appendix 4).

CEAs are not entitled to annual automatic merit salary adjustments (MSA) since each position is assigned a flat rate in accordance with DPA rule 599.985. Base pay increases are discretionary and are reviewed and determined as part of the CalPERS annual performance evaluation process completed at the close of each fiscal year in accordance with this policy and any other relevant CEA salary provisions.

Salary Exceptions

Appointment to a salary rate that exceeds the maximum of the range for the CEA level allocated to a specific position must be approved by DPA. Exceptions may be based on recruitment, retention or other factors such as program complexity, sensitivity, or skill requirements that may make it difficult to recruit or retain qualified CEAs. Requests for such exceptions are unusual and must be authorized by the CEO or designee. Requests for exceptions will then be submitted to DPA by HR staff in accordance with DPA process and policy.

Compensation Administration - *Incentive Pay Policies*

Incentive Compensation Program Description

The basic principle underlying incentive compensation is that executives and senior managers should be recognized in part for their contribution to the accomplishment of an organization's critical objectives in support of its strategic and annual business plans. The CalPERS CEA compensation program provides an opportunity for each individual to earn an annual one-time incentive payment ranging from 0-15% of base pay for successfully meeting established objectives. Performance on individual objectives is weighted 70% with overall managerial performance weighted 30% of the total award earned.

Difference between Within- Range Base Pay Increases and Performance Awards

Performance awards are distinguished from within-range base salary increases by the following characteristics:

- A performance-based within-range pay increase changes a CEA's base salary rate. A performance award is a contingent cash award reflecting the individual's contribution to measurable organizational goals or one-time events and activities that generate significant results. A performance award does not change the base salary rate.

- Within-range base salary increases are based on the performance of overall managerial duties and responsibilities as evaluated through a formal annual performance appraisal process. Performance awards are based on an individual performance plan, outlining position-specific measurable achievements relative to performance goals or targets. Performance awards do not change base pay rates.

Authority to Defer, Reduce or Eliminate Performance Awards[1]

Payment of performance awards shall be subject to and conditioned upon all of the following:

a) The CEO may elect to defer, reduce or eliminate payment of all or a portion of an employee's performance award based on a triggering event such as an unfavorable economic climate, negative performance of the fund, failure to achieve organizational objectives, or any other event deemed appropriate. In the event that the CEO elects to defer payment of an award to a subsequent fiscal year, payment of the award may be deferred up to 115 days beyond the end of the first subsequent fiscal year in which the triggering event occurs ~~the one-year absolute return on the Total Fund exceeds zero percent (0%)~~, or, as to an individual who has been involuntarily terminated without cause by the State of California (as determined by the CEO's sole discretion) ("Terminated Without Cause"), died, becomes "disabled," or "retires," up to 115 days after the end of the fiscal year in which the individual was Terminated Without Cause, died, became "disabled" or "retired." To the extent payment is deferred for more than 120 days after the end of the fiscal year for which the performance award is payable, the performance award shall be credited with earnings that ~~approximate the absolute return of the Total Fund for the deferral period~~ as determined by the CEO, but not in excess of 15% annually. The CEO shall not be obligated to treat all employees eligible to a performance award alike in determining whether to defer, reduce or eliminate a performance award, how large a portion to defer or reduce, and when to pay the deferred or reduced performance award.

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[1] The terms "disabled," "disability," "retired," "retires" and "retirement" throughout the policy are used as defined in California Public Employees' Retirement Law sections 20026, 20027 and 20060.

b) An employee will be entitled to a performance award for any period only if the employee has complied with the policies identified in CalPERS Working Values Handbook, such as, but not limited to, CalPERS Fraud, Criminal Acts, and Internal Investigations Policy, CalPERS Statement of Incompatible Activities, CalPERS Conflict of Interest Code, and regulatory requirements (collectively, Performance Award Policies) throughout the period, as determined by the CEO in good faith. A Performance Award Policies violation in a prior period shall be treated as a continuing violation in each subsequent period through the date as of which the CEO determines that the violation was adequately remedied. All references to the CEO in this subsection and the following subsections also refer to the CEO's delegate or CalPERS staff acting on behalf of the CEO, and all references to "employees" in these subsections refer both to current employees and former employees.

c) If the CEO believes an employee is not entitled to a performance award due to a Performance Award Policies violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding, the employee must so notify the CEO in writing within 15 days of receiving the CEO's notice. If the employee does not timely notify the CEO, the employee will be deemed to have admitted the violation. If the employee admits or is deemed to have admitted the violation, the employee will not receive the performance award in question. If the employee timely denies the violation, the CEO will conduct such further investigations as it deems appropriate ("Investigation"). The Investigation must be completed within 90 days of the date the performance award would have been paid but for the violation. Within 60 days after the Investigation has been completed, the CEO shall determine whether the violation occurred. Its good faith determination shall be final and binding. The CEO shall delay payment of the performance award pending that determination. If the CEO determines that there was no violation, the employee will receive the performance award plus interest at the annual rate of 6% interest for the period of late payment in excess of 60 days. This payment will be made by the earlier of (1) 30 days after the CEO's determination following the Investigation, or (2) December 31 following the CEO's determination.

d) If a performance award is paid to an employee but, within three years after the payment, the CEO determines that the employee was not entitled to the payment because of a Performance Award Policies violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding, the employee must so notify the CEO in writing within 15 days of receiving the CEO's notice. If the employee does not timely notify the CEO, the employee will be deemed to have admitted the violation. If the employee timely denies the violation, the CEO will conduct an Investigation. When the Investigation has been completed, the CEO shall determine whether the violation occurred. Its good faith determination shall be final and binding. If the CEO determines that there was a violation, or if the employee admits the violation or is deemed to have admitted it, the employee must repay the performance award, plus interest at the annual rate of 6% interest for the period from payment to repayment, within 365 days after the CEO's determination following the Investigation.

e) If at any time the CEO determines the criteria used to determine an employee's performance award were, with hindsight, improperly designed or otherwise mistaken, the CEO may correct those criteria in any way, even if correction reduces or eliminates the performance award the employee would otherwise receive.

f) Notwithstanding anything else, an employee shall not be entitled to a performance award to the extent the CEO determines that payment of the performance award would violate applicable law.

Action upon Separation[2]

Employee must be employed by CalPERS on the payment date to receive an award, except in the case of death, "disability," or "retirement" or "Termination Without Cause". Under extraordinary circumstances, exceptions to this provision may be approved by the CEO.

Action upon Unsatisfactory Individual Performance

Individuals who receive an individual performance rating of 'Does Not Fully Meet Standards' in their annual performance appraisal will be ineligible to receive any portion of the incentive compensation award at any time for the year in which the unacceptable rating was received.

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[2] The terms "disabled," "disability," "retired," "retires" and "retirement" throughout the policy are used as defined in California Public Employees' Retirement Law sections 20026, 20027 and 20060.

Performance Plan Development, Review and Year-End Evaluation Process

Elements of a Performance Plan and Annual Objectives Setting

Individual and/or shared organizational objectives are the key element of the CEA performance plan and the basis for payment of an incentive award. A performance plan typically contains no more than five to eight value added objectives. Objectives are prepared at the beginning of each fiscal (plan) year and are linked to CalPERS strategic and annual business plans. Each objective must be specific, measurable, and completed within the plan year. Performance plans are reviewed and approved by the CEO. Changes during the plan year must also be approved by the CEO. Quarterly reports are prepared to measure progress during the plan year. A plan year coincides with the fiscal year and begins on July 1 and ends on June 30.

Newly-Appointed CEA Plan Development

For employees appointed after the start of a fiscal (plan) year but no later than the end of the third quarter of the plan year, HR will orient new CEAs as soon as practical and a performance plan will be developed and approved in accordance with the policy.

Changes to Performance Plan during Plan Year

Changes to performance plans may occur for various reasons during the plan year. Such changes may be attributed to a shift in organizational objectives, unforeseen changes to organizational priorities, delays in projects due to circumstances outside of the employee's control or other reasons. Changes to a plan must be submitted on a change request form and approved by the CEA's Executive level supervisor in accordance with HR's change request process (Appendix 6).

Quarterly Status Progress Reporting

All CEA employees are responsible for preparing quarterly status reports of progress on their objectives at the end of each quarter. HR staff is responsible for notifying all employees of quarterly reporting due dates and requirements.

Year End Reporting and Final Performance Evaluation

At the end of each plan year (fourth quarter), all CEA employees are required to complete a final status report on completion of their performance objectives. In addition, a year end summary of all accomplishments must be completed and submitted with the fourth quarter status report.

Completion of individual and/or shared organizational objectives is the basis of the performance award and is weighted 70% of the total award. A rating is assigned to each objective based on the following scale:

Performance Rating Schedule	Performance Rating Value (Multiplier):
Exceeds Expectations	1.1 - 1.5
Meets Expectations	.6 - 1.0
Does Not Fully Meet Expectations	0 - .5

The overall managerial performance of each CEA during the plan year is the basis of a base pay increase and is also weighted 30% of the total performance award. CEAs are evaluated using the Managerial Performance Evaluation Rating Form (Appendix 7). Employees are rated on general managerial performance using the following rating scale:

Critical Managerial Competencies
Leadership & Communication
Human Resource Management & Diversity Awareness
Commitment to Continued Personal Development
Succession Planning Management
Business Planning and Fiscal Management
Executive / Board Relations
Demonstration of Core Values

Ratings & Numeric Values:	
Exceeds Expectations:	1.5
Meets Expectations:	1.0
Does Not Meet Expectations:	0

The final award is then calculated using the award calculation work sheet (Appendix 7).

Base Pay and Incentive Award Review and Approval Process

All base pay increases and incentive awards must be approved by the appropriate Executive in accordance with the performance appraisal process (Appendix 7). Once the pay recommendations have been reviewed, calibrated and approved, CEA employees will be notified and payments will be issued. The process typically is completed by the end of September (Appendix 8).

Base pay increases awarded as a result of the annual appraisal process are effective July 1. A CEA who does not have 12 months of CEA service at the end of the review period (June 30 of the prior fiscal year) may be considered for a base pay increase to be effective upon reaching 12 months of service during the current fiscal year.

Pro Rata or Partial Year Award

Establishment of performance objectives for employees appointed during the first three quarters of a plan year will be at the discretion of the appropriate Executive. Employees appointed during this timeframe are eligible to receive a partial year pro rated award based entirely on the level of achievement of the established objectives designed to cover the period of time between the appointment and the end of the fiscal year.

Employees appointed after the end of the third quarter of a plan year will not typically develop a performance plan until the beginning of the new fiscal (plan) year and therefore are not eligible for a performance award until the following year.

Additional Special Pay and Appointment Considerations

Interim or Acting Assignments

On occasion, a CEA may be asked to assume additional responsibilities or serve in an acting or interim capacity. Additional compensation may be provided and will depend on the nature of the assignment, duration, and whether or not the employee performs duties in addition to their regular CEA assignment. Typically extra compensation will be provided if the assignment exceeds 60 days in duration.

CEA Differential

As authorized by DPA in accordance with Pay Differential 71, CEA employees may earn an additional 0-10% for assuming responsibilities over and above what is normally required of the individual in their job for up to 24 months (Appendix 9). At CalPERS, such employees typically may earn such a differential for performing another CEA job or project *in addition* to their current CEA assignment. Such assignments are typically for long term assignments. CEA differential pay must be approved by the appropriate Executive using the salary determination worksheet (Appendix 5).

CEA Out-of-Class

On occasion, a CEA may be asked to step out of their current CEA assignment and perform another CEA job at either the same or higher level on an acting or interim basis. In such cases, the individual is performing only one CEA job and an interim is usually assigned behind the individual thus freeing up the CEA to step in and perform an out-of-class assignment for a specified period of time. Out-of-class pay begins on the 91st day and of the assignment, may not exceed one year, and is paid in accordance with DPA CEA salary rules. CEA out-of-class assignments must be approved by the appropriate Executive in accordance with DPA PML 2007-026 delegating such approval.

Level Change

A change in CEA level and salary range must be approved by DPA based on established CEA criteria and in accordance with DPA CEA policies and procedures. Internal to CalPERS, such requests must be authorized by the appropriate Executive staff member and submitted to HR through established processes and procedures.

Appendices

Appendix 1: CalPERS Incentive Pay Differential 24
Appendix 2: California Pay Scales Section 8: Variable Compensation
Appendix 3: CalPERS Internal CEA Allocation Criteria
Appendix 4: PML 2008-012
Appendix 5: CEA Salary Determination Worksheet
Appendix 6: CEA Objectives Change Request Form
Appendix 7: CEA Performance Evaluation Form/Calculation Worksheet Sheet
Appendix 8: CEA Annual Appraisal Process Flow Chart
Appendix 9: CEA Pay Differential 71